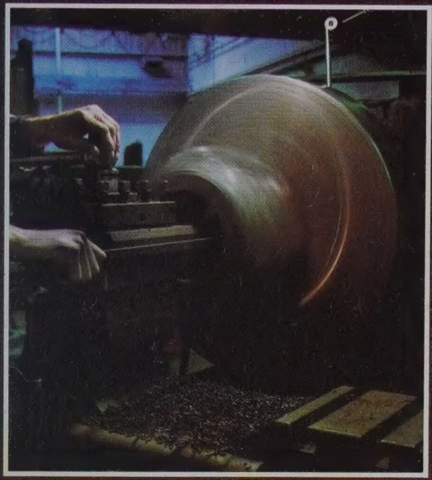
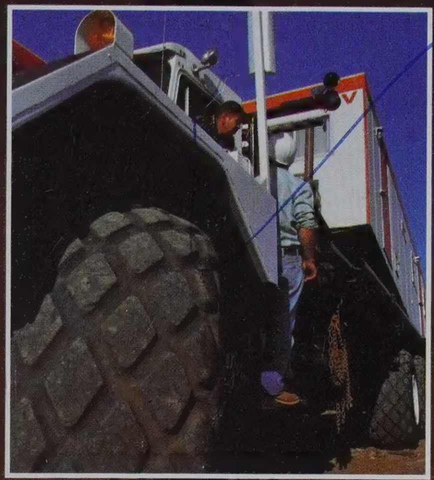
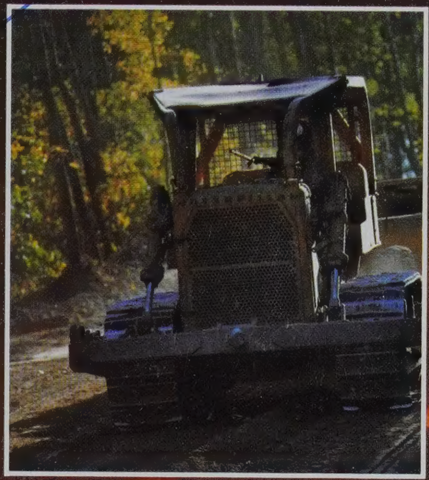
1979 Annual Report


Taro Industries Limited

People

People emphasis has always been a Taro objective. Time and effort on acquiring, training, and developing people in our various divisions is important to obtain the best competitive teams.

The company owns a large amount of "iron" – the equipment necessary in the various divisions to meet job requirements. However, only with capable and interested people to operate that equipment can a proper return on our investment be earned.

We will continue to promote development of our people both as individuals and as working teams, as it is only through our people that the company will continue to grow, prosper and compete.

We intend to keep Taro and its divisions as "a good place to work", where individuals will continue to be recognized for their achievements and successes.

Long-term objective

The longer-term objective of Taro is to continue to grow profitably in the servicing and manufacturing segment of the resource industry in Western Canada.

Photography by: Gerald S. Kitchen
Photographic Dimensions
Calgary.

Directors

G.D. ROSS
President & Director
Calgary

M.D. DOMANKO
Vice President & Director
Calgary

E.E. McNALLY
Secretary & Director
Calgary

S.W. ARMSTRONG
Director
Calgary

NOAH COHEN
Director
Calgary

J.A. McKEE
Director
Toronto

G.B. ROSS
Director
Vancouver

W.J. WARREN
Director
Calgary

J.W.W. WILLIAMSON
Director
Calgary

R.A. WISENER
Director
Calgary

Head Office

Suite 1580 Aquitaine Tower,
540 – 5th Avenue S.W.,
Calgary

Registrar and Transfer Agent

Canada Permanent Trust Company
Calgary and Vancouver

Auditors

Touche Ross & Co.
Calgary

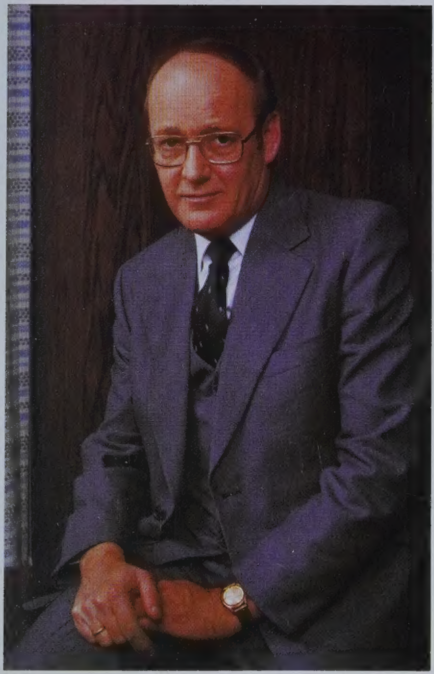
Banking

Canadian Imperial Bank of Commerce
Calgary

Stock Listed

Vancouver Stock Exchange
Symbol: TIN

President's Message



This is the first annual report of Taro Industries which sets out a complete year since the reverse take-over of Athabasca Columbia Resources. Because of the reverse take-over in the previous year, as explained in note 1, comparison between the 1979 annual statement and the 1978 annual statement is not particularly meaningful. However, we are satisfied with the final results achieved in this first full year of operations.

During the past fiscal year, Taro realized net income of $1,858,000 on revenues of $21,317,000. Cash flow from operations before taxes was $3,378,000 ($1.01 per share) compared with $1,861,000 (.57 per share) in the previous period. Retained earnings at the beginning of the year were $2,359,000 while at year-end retained earnings were $4,087,000.

Our goal during 1979 was to dispose of the Athabasca Columbia assets not related to the Company's business and to redirect our efforts toward the service and manufacturing industries within the Western Canadian oil and gas economy. In summary, the following was accomplished:

- One rig, costing $1,150,000 was added to Whitco Drilling division.
- Legrand Industries, a manufacturer of large pressure vessels and oilfield pumping units, was purchased.
- Subsequent to year-end, 75 percent of Shackleton Engineering Limited, of Stockport, England, a manufacturer of gearboxes used in Legrand pumps, was purchased.
- The company's 50 percent interest in Resoursex Ltd. was traded for shares in Invex Resources Ltd.
- The Company's 25 percent interest in the land in Hawaii was sold.
- Six of the Company's condominium units in Mexico were sold.

Our most difficult problem has been the reorganization of Legrand Industries. Due to the change to larger facilities and the management reorganization the losses in the May through September period in this division have been higher than was originally anticipated. The losses should continue into the first quarter of the new year, following which we expect the division to become profitable. We anticipate a bright future for the division and expect sales will grow from the $6,000,000 level of the last 12 month period to the $15,000,000 per year range in the next three to four years.

Another significant problem has been the below-capacity operation of the larger plant facility, due to the inability to obtain sufficient gearboxes for the pumping units. To improve upon this situation, we have, as previously mentioned, now made arrangements to purchase 75 percent of Shackleton Engineering and to move the pumpjack gearbox manufacturing operation to Alberta by the end of 1980, leaving the custom gear cutting facilities in place in England.

The drilling division of Taro has continued to operate in a most satisfactory manner. The management is securely in place and is most efficient and effective. The whole industry is operating at near capacity and will continue to do so for the foreseeable future. With the stability and capability of our drilling people, we will continue to perform on an above-average basis. When the economics justify the expenditures, we will continue to grow in these divisions.

Our goals for the next year are to continue to strengthen the management team in the various divisions; to improve our financial and cost controls; and to continue consolidation of operations, where practicable, along with the disposal of assets that do not fit our long-term objectives.

We are confident the result of these objectives will be a continued improvement in our over-all profitability, especially in relation to the rate of return on our various investments.

The longer-term objective of Taro is to continue to grow profitably in the servicing and manufacturing segment of the resource industry in Western Canada. Primarily, this growth will occur within our present divisions where we can obtain the discounted rate of return from the additional investment. Expansion into related services will also be examined, but not with the same emphasis.

In accomplishing these goals, we will rely on both borrowed funds and an expansion of the capital base by using our equity in potential acquisitions.

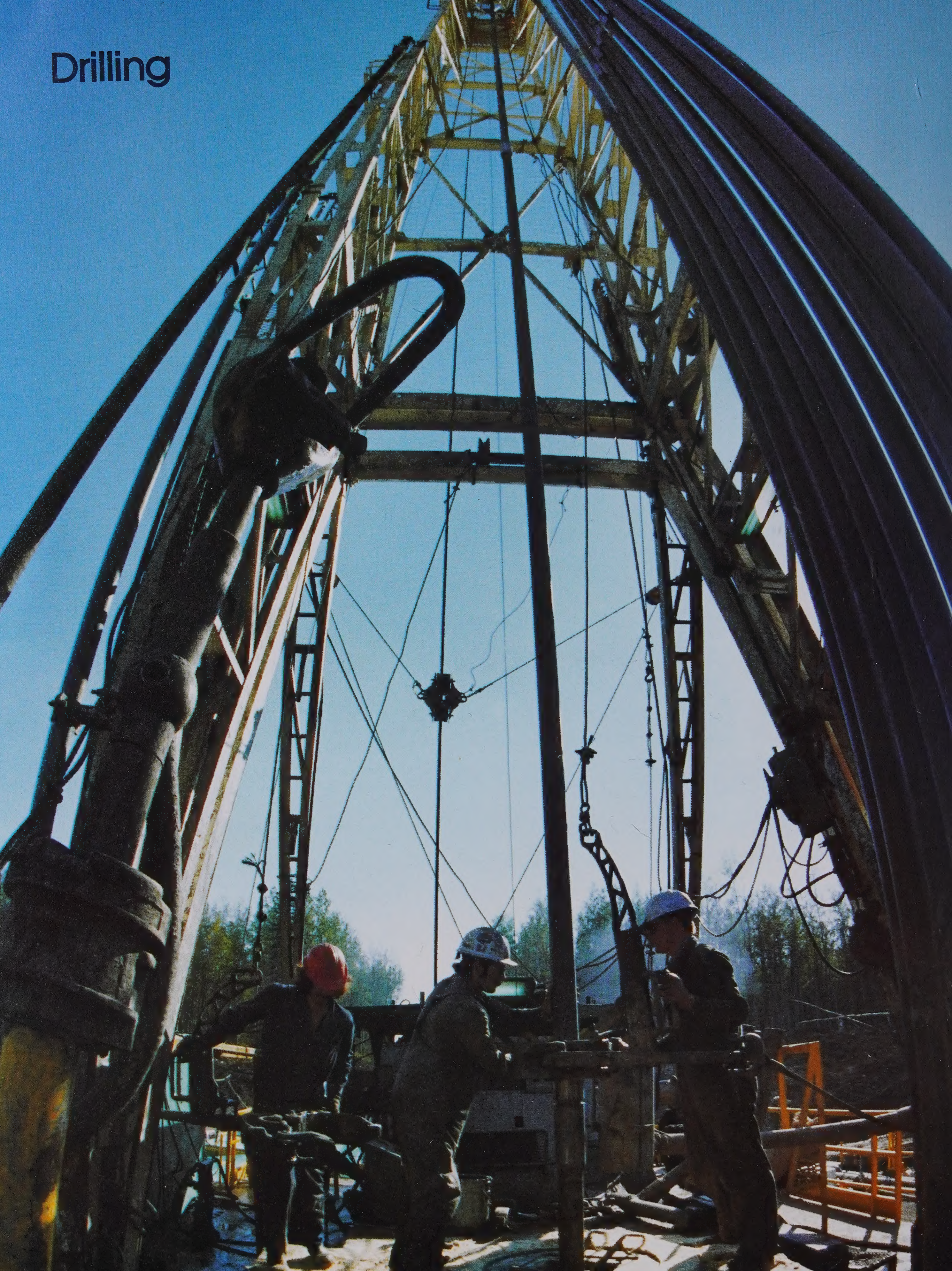
We all look forward to the next few years and anticipate a most satisfactory growth for Taro based upon an expanding market in Western Canada and, more importantly, the growing strength of our people.

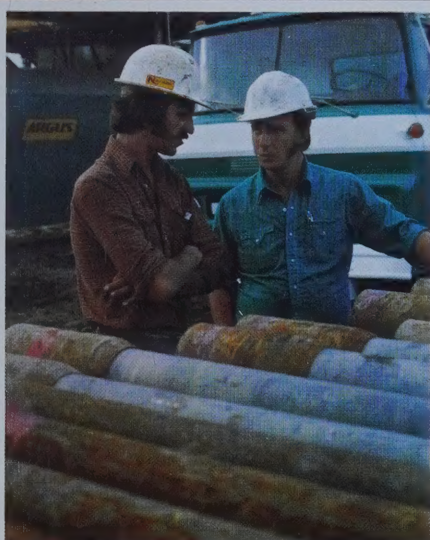
I would like to extend my personal gratitude to our directors, managers, and employees for the extraordinary efforts they have made during the past year of continual change within Taro. We are fortunate to have such a diverse array of talent.

Sincerely,

Graham D. Ross
President

Drilling





Drilling

Argus and Whitco Drilling experienced a high level of activity during the year, as the whole industry expanded to meet the demand for extended oil and gas exploration and development. Industry forecasts for the coming year indicate this high activity will continue.

Argus Drilling

Argus Drilling is the largest and most profitable division of Taro. It was the original company which purchased or merged with the other divisions to form what is now Taro Industries.

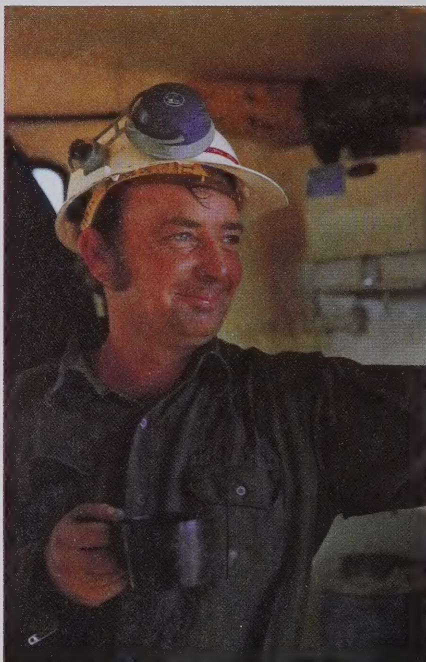
Argus operates six drilling rigs with a depth range of from 4,500 to 12,000 feet, and operates in Alberta and Northeastern British Columbia. The equipment owned and operated by this division was appraised a year ago at a value in excess of $8,800,000.

During the fiscal year ended September 30, 1979 considerable expenditures were made in this division to upgrade, enhance and replace mud systems and electrical systems. This was done in order to maintain the competitiveness of the rigs.

In addition, a costly program of upgrading the capacity of blowout preventors on the rigs was undertaken in both Argus and Whitco, as a direct result of the new Alberta Government regulations, costing in excess of $750,000 for the year.

Argus, due to the greater depth drilled with the larger rigs, requires 10 to 30 days to drill an average well. Mobility is quite different as compared to Whitco, so emphasis is placed on down-hole engineering practices due to the more complex drilling techniques and problems.

Drilling



Whitco Drilling

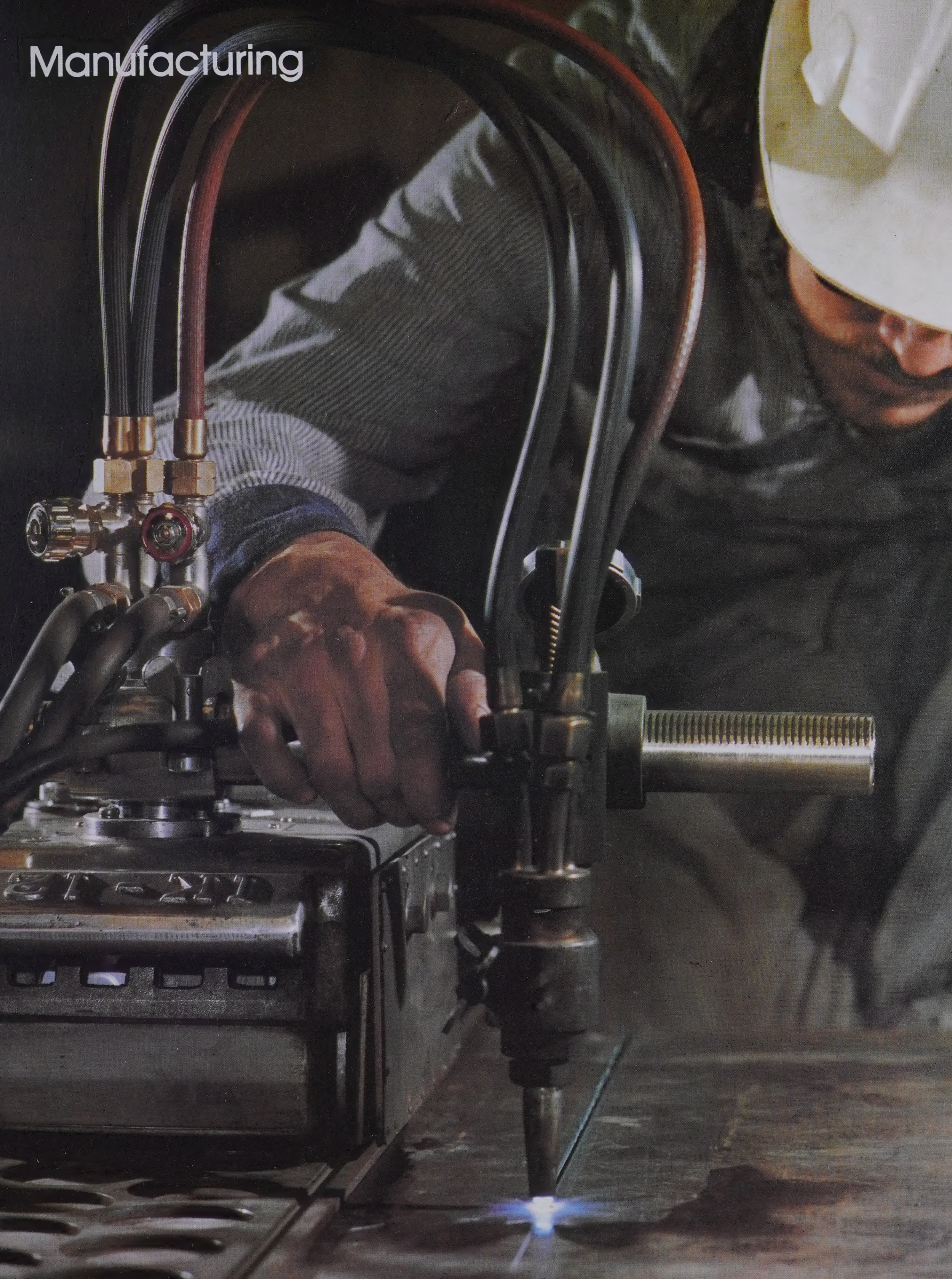
Whitco operates five drilling rigs with a depth capacity of from 2,000 to 4,000 feet and is involved in drilling primarily in the shallow gas areas of Southeast and Northwest Alberta.

The division was purchased three years ago. Since that time, three new rigs have been added – the latest in February of 1979. Currently, Whitco is the second most profitable division in the Taro corporate profile, and employs in excess of 90 people. The equipment from this division was appraised a year ago at a value in excess of $3,500,000.

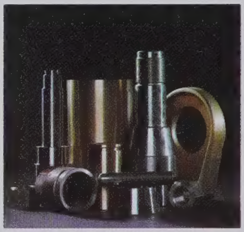
In February, a new fifth rig costing $1,150,000 and capable of drilling to 4,000 feet, was placed in service. Besides this investment, extensive modification was carried out on all the other rigs.

Whitco Drilling differs from Argus Drilling in that a high degree of mobility is necessary, as an average well drilled by Whitco requires four days or less to drill. In order to meet the mobility necessary, all rigs are wheel-mounted and emphasis is placed on moving and rigging up in the shortest possible time.

Manufacturing



Manufacturing



Legrand Industries

Legrand is Taro's newest division, purchased in April of 1979. The company is more than 100 years old, and is involved in the supply to the oil and gas industry of a complete range of custom-engineered production and processing equipment.

The company's fabrication division specializes in the design and manufacture of dehydration and regeneration plants, oil and gas separators, production and process heaters, and flare stacks.

The Legrand pump division produces oilfield pumpjacks and sells components and spares. While the company's sphere of operations has in the past centered on the Middle East and South America, an aggressive marketing program has now been instituted to establish Legrand as a major supplier of pumpjacks to the Western Canadian oil and gas industry.

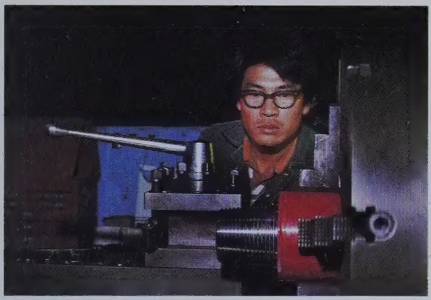
In order to gain better control of the company's diverse operations and to provide expansion room for the pump division, Legrand was moved in mid-1979 to a new location in Calgary with 68,000 square feet of manufacturing space. This move was accompanied by a number of staff changes in the company, and a general reorganization of the management structure.

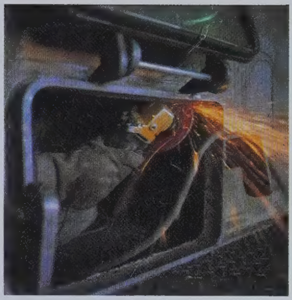
As a result of the plant relocation and other activities, Legrand will reflect a loss for its 1979 operations. However, this loss was anticipated and the 1980 fiscal year should show the company once again in the profit column.

Also during mid-1979, Taro purchased the outstanding 49 percent of shares in Legrand Oilfield Services, which is involved in the installation and maintenance of pumping units throughout Alberta. The net result of this move will be to further strengthen the ability for field maintenance and service of Legrand and other pumpjacks.

In order to better control the product sold and to ensure future supply, Taro purchased in December of 1979, 75 percent of the shares of Shackleton Engineering Limited of Stockport, England. Shackleton is a custom manufacturer of specialty gears and gearboxes, and has been the prime supplier of pumpjack gearboxes to Legrand. Future plans call for the relocation of the pumpjack gearbox division of Shackleton to Calgary, thereby further consolidating Legrand's pumpjack manufacturing operation.

Manufacturing





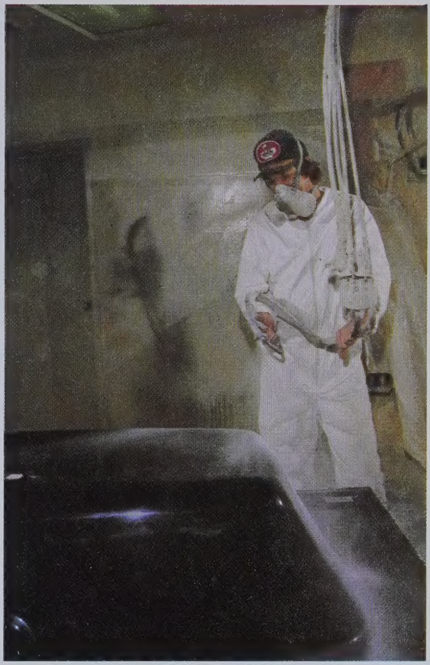
Rostel Fabricating Industries

Taro acquired a 50 percent interest in Rostel two years ago, at a time when Rostel employed a staff of four and gross sales were less than $250,000. Since that time, sales have increased more than 10 fold to $2.5 million for the 1979 fiscal year, and staff has increased to a current complement of 45 machinists, mechanics and welders.

Rostel is involved primarily in the manufacture, fabrication and repair of drilling rigs, mud tanks, downhole equipment, drill collars, stabilizers, reamers, and other specialty oilfield equipment. The heavy machine tools owned by this division equal any available in Calgary for this specialized work.

Taro's involvement with this company has been primarily limited to initial funding for new equipment and new plant facilities, which allowed Rostel President, Carmen McBride and Vice President, Steve Szabo the opportunity to make major inroads into the industry. Unquestionably, their skill and foresight has been the prime factor in making the company the success it is.

It is felt future prospects for this company are excellent, although due to space limitations currently being experienced, it is unreasonable to assume growth will equal the very rapid expansion experienced during the past two years.



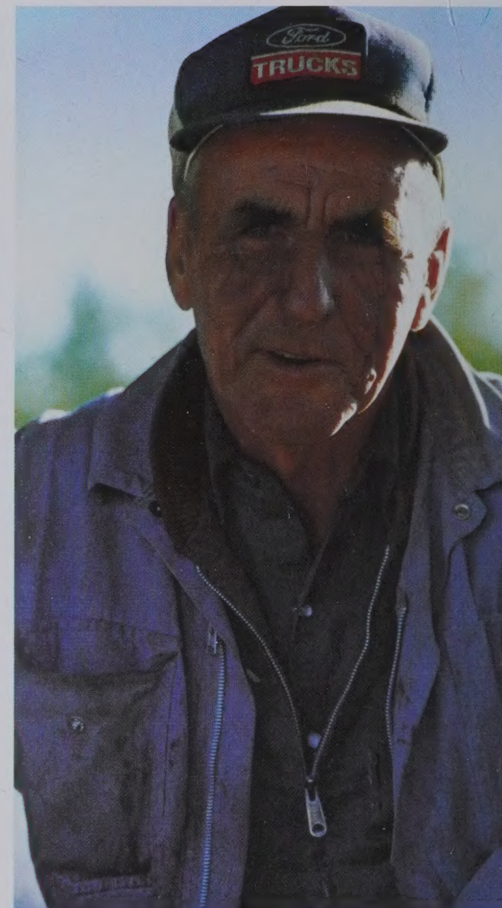
Tapsa Fiberglass

Tapsa was formed in February of 1979, after Taro and another investor had purchased equipment from an existing manufacturer of fiberglass products. The prior manufacturer was involved in the manufacture of fiberglass bathtubs and modular showers for the residential, hotel and mobile home industries. The eventual aim of this division is to diversify into the manufacture of industrial fiberglass products.

Because of the expected start-up problems, the division experienced a loss during its first eight months of operation to year-end. With initial start-up problems under control, investigation is currently being undertaken to examine the prospects of industrial fiberglass products. Taro is optimistic about the eventual success of this division.

Tapsa is Taro's smallest division at present, with a staff of 20.

Transportation and Construction



Scandia Trucking

Scandia Trucking, headquartered in Edmonton, operates a fleet of 20 heavy oilfield trucks, involved primarily in the transport of oilfield equipment on a contract basis.

The company holds operating authorities in Alberta, British Columbia, the Yukon and the Northwest Territories.

During the 1979 fiscal year a new office for the company was established in Grande Prairie, in Northwest Alberta due to the activity generated by the discoveries of large new gas fields in the area. This office will also allow the company to better utilize its British Columbia operating authority.

During the past 12 months substantial expenditures were made in the company to upgrade and repair existing equipment, as well as for the purchase of new equipment.

Due to very strong competitive factors in the oilfield trucking industry, this division has not in the past satisfied Taro's required return on investment. Efforts will continue to bring the division to an acceptable level of profitability.

Larsen Oilfield Services

Larsen Oilfield Services (1978) Ltd. is owned 80 percent by Taro and is involved in well site preparation and the construction of lease roads for the oil and gas industry.

The company operates a total of nine cats and graders. When it was acquired by Taro in early 1978, the company was operating at a loss. However, since that time it has moved into a profit position.

Having solved some existing management problems and improved its profitability, Larsen is now considering an expansion of operations.

Former Athabasca Columbia Resources Investments

Village Green Inns

Taro owns a 50 percent interest in two Village Green Inns; an 80 room hotel in Duncan, British Columbia and a 140 room hotel in Vernon, British Columbia. Because of the 50 percent ownership position and the differences in the type of business, attempts were made to sell this interest during 1979.

During the year, however, both hotels continued to improve their profitability in comparison to previous years. It would now appear that each hotel is able to stand alone, without further financial support from either of the two parent companies. Occupancy rates have improved and closer supervision by the managers has held increasing operating costs to a minimum.

Real Estate

Land holdings in Molakai, Hawaii which were acquired through the takeover of Athabasca Columbia Resources were sold in August above net book value. This investment will therefore be excluded from future financial reports of the company.

An additional six condominium units in Mexico were sold at a profit during the 1979 year. These sales reduce the company's holdings to only two condominiums and reference to these investments will be dropped from future annual reports of the company.

Consolidated Balance Sheet AS AT SEPTEMBER 30, 1979

ASSETS	**1979**	1978
Current assets		
Cash	$ 97,000	$ 542,000
Accounts receivable	7,341,000	3,582,000
Inventories and work-in-progress (Note 4)	3,032,000	438,000
Prepaid expenses	161,000	44,000
	10,631,000	4,606,000
Investments (Note 5)	1,615,000	1,630,000
Fixed assets (Note 6)	8,033,000	4,744,000
Other assets, at cost		
Excess cost of investment over net book value	1,491,000	960,000
Organization costs	207,000	185,000
	$ 21,977,000	$ 12,125,000

LIABILITIES		
Current liabilities		
Bank operating loans (Note 7)	$ 4,575,000	$ 460,000
Accounts payable	5,129,000	2,834,000
Income taxes payable	368,000	690,000
Current portion of term debt	1,332,000	950,000
	11,404,000	4,934,000
Term debt (Note 7)	3,567,000	2,568,000
Deferred income taxes	1,526,000	978,000
SHAREHOLDERS' EQUITY		
Share capital (Note 8)		
Authorized		
6,000,000 common shares with no par value		
30,000 8% cumulative convertible redeemable first preferred shares of $100 par value		
Issued		
3,334,151 common shares and 16,250 first preferred shares	1,393,000	1,286,000
Retained earnings	4,087,000	2,359,000
	5,480,000	3,645,000
	$ 21,977,000	$ 12,125,000

Signed on behalf of the Board

Director Director

Consolidated Statement of Income and Retained Earnings FOR THE YEAR ENDED SEPTEMBER 30, 1979

	1979	Nine months ended September 30, 1978
Revenue		
Oilfield services	$ 18,625,000	$ 9,773,000
Manufacturing	2,445,000	—
Other	247,000	29,000
	21,317,000	9,802,000
Costs and expenses		
Operating costs	14,473,000	6,486,000
Administration	2,573,000	1,263,000
Interest		
Term debt	610,000	158,000
Other	239,000	34,000
Depreciation	919,000	377,000
Amortization	86,000	64,000
	18,900,000	8,382,000
Net income before income taxes and undernoted items	2,417,000	1,420,000
Provision for income taxes		
Current	808,000	476,000
Deferred	548,000	298,000
	1,356,000	774,000
Net income before undernoted items	1,061,000	646,000
Share of income of affiliated companies	378,000	94,000
Minority interests in losses of subsidiary companies	108,000	—
Start up costs of new plant	(129,000)	—
Net income before extraordinary item	1,418,000	740,000
Tax losses not previously recognized	440,000	—
Net income for the period	1,858,000	740,000
Retained earnings at beginning of period	2,359,000	1,619,000
Dividends paid on preferred shares	(130,000)	—
Retained earnings at end of period	$ 4,087,000	$ 2,359,000

Taro Industries Limited and subsidiary companies

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED SEPTEMBER 30, 1979

	1979	Nine months ended September 30, 1978
Source of funds		
From operations		
Net income for the period	$ 1,858,000	$ 740,000
Items not requiring a current outlay of funds		
Equity income of affiliated companies	(378,000)	(94,000)
Depreciation and amortization	1,005,000	441,000
Deferred income taxes	548,000	298,000
Gain on disposal of investments	(23,000)	–
	3,010,000	1,385,000
Proceeds from disposal of investments	820,000	–
Increase in term debt less current portion	2,043,000	561,000
Proceeds from disposal of fixed assets	1,236,000	82,000
Issue of share capital		
Arising from business combination	–	1,275,000
Other	107,000	10,000
	7,216,000	3,313,000
Application of funds		
Acquisition of net assets arising on business combinations		
Consideration	791,000	1,275,000
Working capital deficiency assumed	938,000	335,000
Increase in investments	400,000	24,000
Repayment of term debt	1,150,000	426,000
Purchase of fixed assets	4,121,000	1,488,000
Dividends paid	130,000	–
Other	131,000	58,000
	7,661,000	3,606,000
Decrease in working capital	(445,000)	(293,000)
Working capital deficiency at beginning of period	(328,000)	(35,000)
Working capital deficiency at end of period	$ (773,000)	$ (328,000)

Auditors' Report

The Shareholders
Taro Industries Limited

We have examined the consolidated balance sheet of Taro Industries Limited as at September 30, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Touche Ross & Co.
Chartered Accountants

Calgary, Alberta
December 21, 1979

Notes to the Consolidated Financial Statements SEPTEMBER 30, 1979

1. FINANCIAL STATEMENT PRESENTATION

The comparative statements are for the nine month period ended September 30, 1978 and include the results of operations for the Taro group of companies for the nine month period and the results of operations of the Athabasca group of companies for the three month period ended September 30, 1978. This results from the application of business combination accounting rules for a "reverse takeover" whereby Taro "acquired" Athabasca with effect from June 30, 1978 for financial purposes.

Athabasca Columbia Resources Ltd., Taro Oilfield Industries Limited and Kenai Trucking (1969) Ltd. were amalgamated as Taro Industries Limited as at September 30, 1978.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

These financial statements include the accounts of the Company and its subsidiary companies which are all 100% owned except for Larsen Oilfield Services (1978) Ltd. and Tapsa Fiberglass Manufacturing Limited which are 80% and 62.2% owned respectively.

The excess cost of investment in subsidiaries over net book value is being amortized over forty year periods.

Investments in affiliated companies are accounted for on the equity method (equity consisting of advances, cost of investment and share of earnings or loss since acquisition).

b) Inventories and Work-in-progress

Manufacturing inventories and work-in-progress are valued at the lower of cost and net realizable value, cost being the average cost for materials, actual cost for direct labour and estimated cost for overhead.

Drilling work-in-progress is accounted for by the percentage of completion method of accounting.

Condominiums held for resale are valued at the lower of cost and net realizable value.

c) Depreciation

Depreciation is recorded in the accounts using the straight-line method at the following rates which will reduce the assets to estimated residual values:

Drilling rigs and related equipment	10-12½%
Drillstring, pipe and collars	14-17%
Trucks, trailers and tractors	10-15%
Automotive equipment	23-35%
Furniture and other equipment	6-10%
Manufacturing equipment	6- 9%

d) Organization Costs

Organization costs are being amortized over a ten year period.

3. ACQUISITION OF LEGRAND INDUSTRIES LTD.

On April 25, 1979 the Company acquired the outstanding share capital and outstanding shareholder advances of Legrand Industries Ltd. for a total consideration of $791,000. At that time Legrand Industries Ltd. owned 100% of L G Petroleum Services Limited and 51% of Legrand Oilfield Services Ltd. Subsequent to that date the minority interest in Legrand Oilfield Services Ltd. was also acquired.

The acquisitions are summarized as follows:

Assets and liabilities of Legrand Industries Ltd. and subsidiary companies at date of acquisition.

Current assets	$ 3,200,000
Current liabilities	(4,138,000)
Working capital deficiency	(938,000)
Fixed assets	1,328,000
	390,000
Term debt	(106,000)
Net book value	284,000
Cost of purchase including acquisition costs	888,000
Excess cost of investment	$ 604,000

The results of Legrand Industries Ltd. and its subsidiary companies have been included in these consolidated financial statements for the five month period from May 1, 1979.

Notes (continued)

4. INVENTORIES AND WORK-IN-PROGRESS

Inventories and work-in-progress comprises:

	1979	1978
Manufacturing inventories		
Raw materials	$ 1,126,000	$ –
Work-in-progress	926,000	–
Finished goods	328,000	–
	2,380,000	–
Drilling and other work-in-progress	540,000	201,000
Condominiums held for resale	112,000	237,000
	$ 3,032,000	$ 438,000

5. INVESTMENTS

Investments comprise:

	Percentage interest	1979	1978
Advances to and equity in affiliated companies			
Village Green Hotel companies	50.0	$ 915,000	$ 765,000
Rostel Fabricating Industries Ltd.	50.0	422,000	115,000
Oaktar Holdings Ltd.	33.3	71,000	–
		1,408,000	880,000
Investments at lower of cost or net realizable value			
Kaunakakai Resources Inc.		–	543,000
Western Rock Bit Company Limited		162,000	152,000
Resoursex Ltd.		–	43,000
Invex Resources Ltd.		43,000	–
Other		2,000	12,000
		$ 1,615,000	$ 1,630,000

During the year, Kaunakakai Resources Inc. sold its interest in property and the funds were distributed to shareholders subsequent to year-end. Accounts receivable includes the amount due on distribution.

During the year the Company's 50% interest in Resoursex Ltd. was exchanged for an equity interest in Invex Resources Ltd., a publicly traded company.

6. FIXED ASSETS

Fixed assets stated at cost comprise:

	1979	1978
Drilling rigs and related equipment	$ 6,245,000	$ 3,416,000
Drillstring, pipe and collars	1,496,000	1,125,000
Trucks, trailers and tractors	1,916,000	1,642,000
Automotive equipment	294,000	243,000
Furniture and other equipment	312,000	167,000
Manufacturing equipment	773,000	96,000
Permits	132,000	132,000
	11,168,000	6,821,000
Less accumulated depreciation	3,135,000	2,077,000
	$ 8,033,000	$ 4,744,000

7. TERM DEBT

Term debt comprises:

	1979	1978
Bank term loans	$ 3,006,000	$ 2,712,000
Debentures	1,000,000	–
Unsecured notes payable	813,000	666,000
Convertible note payable	–	100,000
Financial contracts – secured	80,000	40,000
	4,899,000	3,518,000
Less current portion	1,332,000	950,000
	$ 3,567,000	$ 2,568,000

Bank term loans bear interest at 1¼% above prime rate, and are repayable in monthly installments of $74,325. Bank term and operating loans are secured by general assignments of accounts receivable, demand debentures carrying a first fixed charge over drilling rigs, related equipment and certain tractors, a first floating charge over all other assets and a guarantee bond and postponement of claims from a director.

The debentures bear interest at 11%, are repayable at par on July 24, 1989 and are unsecured. The interest is payable semi-annually and the debentures themselves may be converted into common shares of the Company in the five years after issue as follows:

Before July 24, 1981 – one common share for $4.00 debenture
Before July 24, 1982 – one common share for $5.00 debenture
Before July 24, 1984 – one common share for $6.50 debenture

The Company also has the option after July 24, 1982 but before July 24, 1989 to redeem the debentures at a premium and will establish a purchase fund commencing on July 24, 1985 sufficient to redeem the then outstanding debentures equally over a period of five years.

Unsecured notes payable bear interest at rates between 10% and bank prime plus 1½% per annum and are repayable in annual installments of:

1980 – $397,000
1981 – $206,000
1982 – $137,000
1983 – $ 73,000

8. SHARE CAPITAL

Details of the issued share capital are as follows:

	1979		1978	
	Number	Amount	Number	Amount
Common shares				
Balance at beginning of period	3,330,151	$ 5,000,000	1,275,151	$ 2,940,000
Issued on business combination (Note 1)	–	–	2,050,000	2,050,000
Exercise of outstanding share option	4,000	7,000	5,000	10,000
Balance at end of period	3,334,151	$ 5,007,000	3,330,151	$ 5,000,000
First preferred shares – Series "A"				
Balance at beginning of period	15,250	$ 1,525,000	–	$ –
Issued on business combination	–	–	15,000	1,500,000
Issued for brokers fee	–	–	250	25,000
Balance at end of period	15,250	$ 1,525,000	15,250	$ 1,525,000
First preferred shares – Series "B"				
Issued on conversion of note payable	1,000	$ 100,000	–	$ –
Aggregate		$ 6,632,000		$ 6,525,000
Adjustment required for business combination accounting for "reverse takeover"		(5,239,000)		(5,239,000)
Balance at end of period		$ 1,393,000		$ 1,286,000

The 8% first preferred share dividends are payable semi-annually January 1 and July 1. The shares are convertible at the holders' option at any time after three years from the date of issue for 50 common shares for every first preferred share held or are redeemable at the Company's option after five years from the date of issue at par.

The Company has reserved 160,000 common shares for future issue under an Employee Stock Option Plan, of which 128,000 have been allocated to employees and of which 124,000 have not been taken up as yet.

Notes (continued)

9. EARNINGS PER SHARE

Earnings per share for the year (1978 - nine month period) have been calculated on the weighted average number of common shares, outstanding during the year. The number of shares deemed to be outstanding for the prior period takes into account the "reverse takeover" rules for business combination accounting.

Basic earnings per common share		
Before extraordinary item	$0.39	$0.26
After extraordinary item	$0.52	$0.26
Fully diluted earnings per common share		
Before extraordinary item	$0.34	$0.23
After extraordinary item	$0.45	$0.23

10. COMMITMENT AND CONTINGENT LIABILITIES

The Company has jointly guaranteed indebtedness of affiliated companies amounting to $1,030,000. Reimbursing guarantees are held for one-half of this amount.

The Company has also fully guaranteed the bank operating loans of affiliated companies amounting to $1,090,000.

Outstanding lease commitments for office premises and for plant facilities total $331,000 and $1,487,000 respectively over the next five years.

11. SUBSEQUENT EVENT

Subsequent to September 30, 1979, the Company purchased 75% of the outstanding share capital of Shackleton Engineering Limited for a total consideration of $650,000 payable as to $75,000 in cash, $325,000 by way of a short-term debenture payable and by the issue of 2,500 preferred shares Series "C". The company is a private company incorporated in the United Kingdom and is involved in the manufacture of custom gears and gear boxes.

12. REMUNERATION OF OFFICERS AND DIRECTORS

During the year (1978 – nine months) there were eleven directors and four officers (1978 – fourteen and five) of whom three were also directors. Directors' and officers' remuneration for the period amounted to $28,000 and $183,000 (1978 – $27,000 and $29,000) respectively.

Taro Industries Limited

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